HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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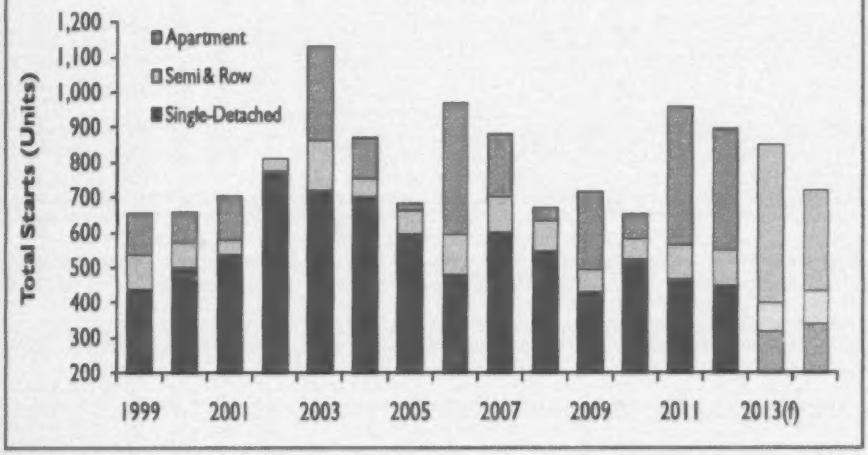
Highlights

- Kingston's existing home sales will post modest growth in 2014.
- Kingston's existing home average prices will continue to rise on pace with general inflation. This growth rate reflects an expected continuation of balanced market conditions.
- At 720 units in 2014, Kingston's total housing starts will be lower than in 2013. Notably, single-detached and row starts will be market segments that see positive growth.

Figure 1

Kingston's Total Housing Starts to Moderate



Source: CMHC (Starts Survey); f = CMHC Forecast

The forecasts included in this document are based on information available as of October 16, 2013.

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Resale Market: Existing Home Sales to See Modest Growth in 2014

Existing home sales year-to-date have moved lower, which was in line with a general deceleration in economic activity in the broader economy. Nonetheless, this summer saw robust sales growth, resulting from buyer's expediting purchasing decisions to bypass increasing mortgage rates. However, total sales this year will be lower than 2012 before seeing a modest increase in sales next year.

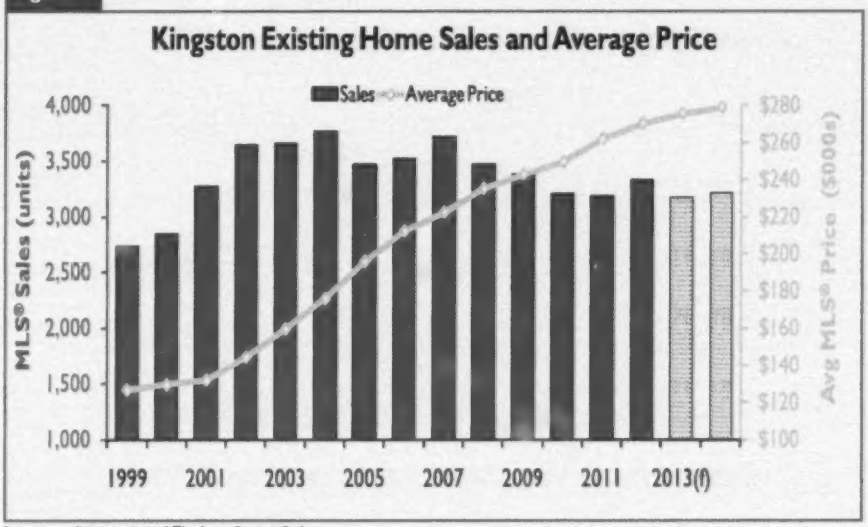
Despite an outlook for gradual increases in mortgage rates, buyers in Kingston will still experience stable monthly carry costs. A slower pace of price appreciation and accelerated wage growth will offset these higher interest charges. In addition, employment growth and household formation will provide additional support for housing demand. In all, Kingston's 2014 projected annual number of existing home sales of 3,220 will be on par with recent historical norms.

Market conditions in Kingston will remain balanced, but face moderate risks from elevated inventories. The sales-to-new listings ratio, which signals market equilibrium, is expected to remain around .45. At this level research has shown that we can expect neither significant price increases, nor decreases. As well, it shows the marks of a well functioning market, one with a reasonable balance of supply and demand.

Average resale price to remain stable

Seasonally adjusted resale prices in 2013 have remained steady, but moved above that of the previous year. The year-to-date (January to September)

Figure 2



Source: CREA (MLS®); f = CMHC forecast
MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

MLS® average resale price was 3.1 per cent greater than the same period last year. With generally favourable readings of leading indicators and a modest outlook for key housing market drivers in Kingston, our expectation is that the average resale price will see a small gain in 2014.

Prices will face pressure from increased supply in the near term. At the time of writing, the sales-to-active listings ratio and the number of new listings continued to be elevated compared to years previous. For example, at September's levels it would take 7.3 months to clear existing inventory, compared to 5.6 months a couple years earlier. As we move into next year demand fundamentals will help to ensure prices remain firm.

New Home Market: Total Housing Starts to Moderate in 2014

Kingston's total housing starts this year will hold steady and will come in just below that of last year's number. Starts will largely be driven by a stronger number of apartments started in late summer, which will offset some of the declines coming from single-detached and row segments. In fact, the number of apartment units started this year will exceed that of single-detached units, which would represent the first time this has happened since 1991.

In 2014, apartments will continue to play an important role in new housing starts, but at lower levels, which will result in a lower number of total starts. With apartment construction activity now running near historic highs, it can be expected that some pull-back is in order. September saw the number of apartment units under construction reach 698, which was roughly three times the last decade's average. On the other hand, single-detached and row starts will see increases over their 2013 numbers.

Single-detached starts set to rebound

Factors that leaned against single-detached this year will ease, and

in 2014 we expect an increase in detached construction. This year's lower number resulted from a build up in unabsorbed inventories. In addition, single-detached inventories in the resale market have been increasingly able to satisfy buyer demand. All of which translated into less need for new starts.

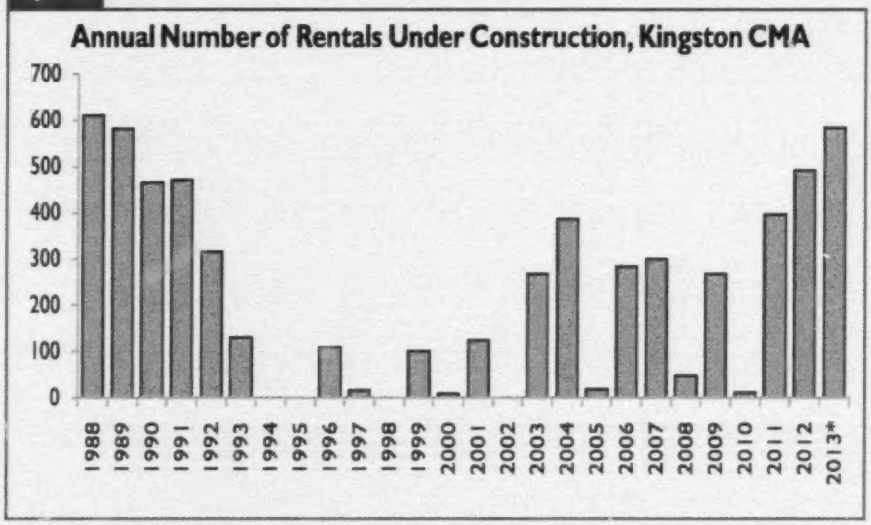
Improving economic conditions and decelerating prices next year will provide enough stimulus to absorb unsold inventories. Additionally, demographic factors – population growth and migration – in Kingston will put upward pressure on singles starts. This year`s retraction in construction will help bring balance to the market and give time for new home inventories to be draw down.

Rental Market: Rental Construction at an all Time High

With marked growth in average rents and persistently low vacancy rates, the benefits of investing in Kingston`s rental stock has attracted new developments. As of September this year, the number of rental units under construction has grown to 583, which is the highest in over twenty years. Given the recent history of market tightness, this outsized number can be seen as a positive sign. This new batch of supply will go a long way to creating improved market balance.

In addition to these larger projects, newly introduced municipal policies allowing the construction of secondary suites (under certain circumstances) have the potential to increase supply. Homeowners will now have greater flexibility to be able to rent out, or to house relatives, in self contained additions. All of which will be in direct competition with multi-unit rental buildings, particularly the more affordable end of the market.

Figure 3



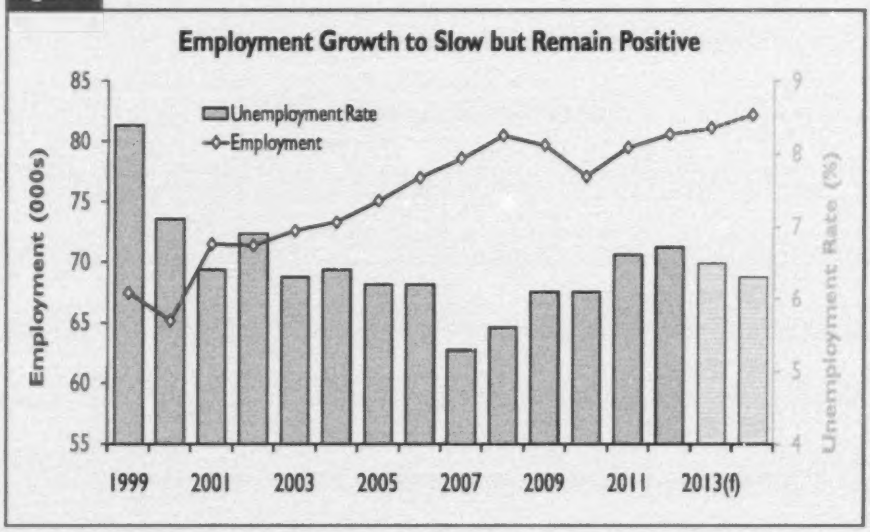
Source: CMHC; *As of September 2013

Rental market conditions in Kingston are expected to loosen in 2013, before tightening again in 2014, with respective vacancy rates of 2.1per cent and 1.9 per cent. The average two-bedroom rent will see growth above general inflation this year, with some deceleration next year. However, Kingston will continue to have one of the lowest vacancy rates in the province, coupled with relatively higher rents for a population centre of its size.

Economy: Employment Growth to Continue at Gradual Pace

Kingston`s employment growth

Figure 4



Source: Statistics Canada; f = CMHC Forecast

will see slight acceleration in 2014, as public sector employment levels stabilize and the private sector continues to influence job growth. Results of recent consumer confidence surveys in Ontario continue to show improvement, which supports a brighter outlook for business hiring. Employment growth in the next year will be just enough to bring the unemployment rate down to 6.3 per cent.

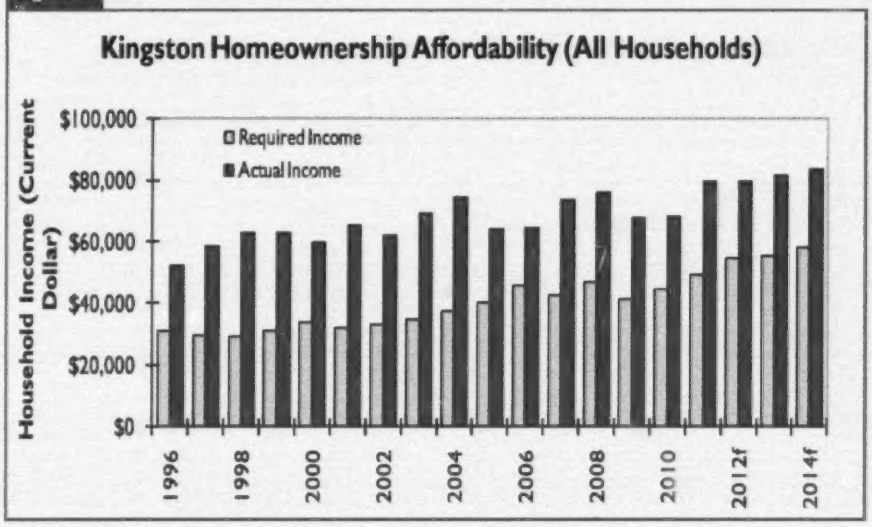
Other indicators offer reason for optimism in the Kingston area. The outlook for residential housing starts points to employment strength in the goods producing sectors, particularly among multi-unit construction. Gradually improving economic conditions in the U.S. offer brighter prospects for export oriented sectors. Also, the recent depreciation in the Canadian dollar has the potential to reverse the recent trend of declines in the tourism industry.

Wage growth to support homeownership

Kingston has seen a steady increase in weekly average earnings this year with a year-to-date increase of 3.8 per cent. This rate of increase has exceeded the Consumer Price Index, a measure of general inflation. A real increase in incomes is a positive sign for future housing demand. Evidence has shown that as personal incomes increase, so do expenditures on housing.

That being said, the outlook for mortgage borrowing capacity will be somewhat mixed in the foreseeable future. Offsetting some of this summer's increase in wages, were higher borrowing costs. International financial markets saw an upward adjustment in long-term interest rates. Canadian rates were not immune and the average five-year mortgage rate increased several basis points over the summer.

Figure 5



Source: CMHC, Statistics Canada, CREA

The outlook for rising wages and incomes in Kingston will keep housing affordability steady. As measured by the required income to purchase a home to the actual average household income, Kingston's affordability will remain relatively stable from previous years. Nevertheless, affordability has been declining slightly since 2007.

Mortgage Rate Outlook

- Mortgage rates to see modest and gradual increases late in the forecast horizon but will remain low by historical standards.
- Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates[1].
- CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.
- Mortgage rates are expected to

[1] "Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting." Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html)

increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

Mortgage rates		
1 Year	Q3 2013	3.14
	Change from Q3 2012	0.04
	2013 (F)	3.00 - 3.50
	2014 (F)	3.25 - 3.75
5 Year	Q3 2013	5.27
	Change from Q3 2012	0.03
	2013 (F)	5.00 - 5.50
	2014 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2013 data

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Longer-term mortgage rates will see a gradual increase, while short-term rates will remain at the same levels.
Employment	Kingston`s employment growth will see slight acceleration in 2014, as public sector employment levels stabilize and the private sector continues to influence job growth.
Income	Kingston has seen a steady increase in weekly average earnings, which exceeded general inflation. Thus, providing those employed with a real increase in incomes, which will prove to be a positive sign for future housing demand.
Net Migration	Positive net migration in the next two years will create population growth that stimulates demand for additional housing, in particular rental demand.
New Home Starts	Kingston's total housing starts this year will hold steady and will come in just below that of last year`s number. In 2014, apartments will continue to play an important role in new housing starts, but at lower levels, which will result in a lower number of total starts.
Resale Market	Market conditions in Kingston will remain balanced, but face moderate risks from elevated inventories.

Risks to the Outlook

This outlook is subject to some risks, including:

- Mortgage interest rates are still near their historical low. Should mortgage interest rates rise sooner or faster than expected by potential buyers and existing mortgage holders, this could lead to a lower level of activity in Canada's housing market and generate some financial risks for the more heavily indebted homeowner households in the medium to longer term.
- Despite recent improvements in the growth of household credit, elevated levels of household debt and house prices in some urban centres have made the country's economy more vulnerable to some economic shocks. If interest rates or unemployment were to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.
- A stronger-than-expected U.S. economic recovery could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

Forecast Summary Kingston CMA Fall 2013	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	522	467	449	320	-28.7	340	6.3
Multiples	131	492	447	530	18.6	380	-28.3
Semi-Detached	24	28	12	10	-16.7	15	50.0
Row/Townhouse	37	70	91	70	-23.1	80	14.3
Apartments	70	394	344	450	30.8	285	-36.7
Starts - Total	653	959	896	850	-5.1	720	-15.3
Average Price ($):							
Single-Detached	277,517	288,320	296,178	298,400	0.8	302,200	1.3
Median Price ($):							
Single-Detached	267,400	282,000	289,900	291,800	0.7	293,600	0.6
New Housing Price Index (% chg) (Ont.)	2.4	3.6	4.1	n/a	-	n/a	-
Resale Market							
MLS® Sales	3,209	3,179	3,321	3,185	-4.1	3,220	1.1
MLS® New Listings	6,286	6,516	6,819	7,150	4.9	7,030	-1.7
MLS® Active Listings	17,034	17,806	18,643	20,281	8.8	19,487	-3.9
MLS® Average Price ($)	249,509	261,967	270,275	275,450	1.9	278,900	1.3
Rental Market							
October Vacancy Rate (%)	1.0	1.1	1.7	2.1	0.4	1.9	-0.2
Two-bedroom Average Rent (October) ($)	935	965	1,005	1,035	3.0	1055	1.9
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	77,100	79,500	80,600	81,150	0.7	82,200	1.3
Employment Growth (%)	-3.3	3.1	1.4	0.7	-	1.3	-
Unemployment rate (%)	6.1	6.6	6.7	6.5	-	6.3	-
Net Migration [1]	1,001	1,189	1,520	1,000	-34.2	1,150	15.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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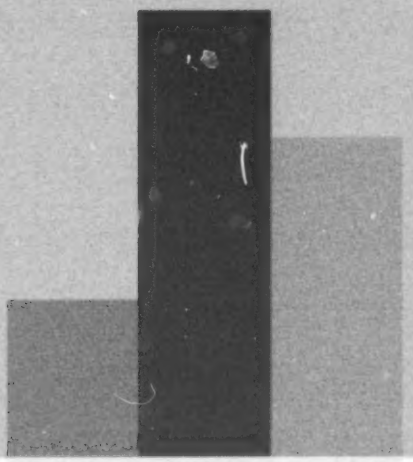

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